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SUBJECT: EASTERN CARIBBEAN MOVES TOWARD ECONOMIC UNION

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[1](#). (SBU) Summary: The Eastern Caribbean's small island-states are creating an economic union that could lead to political integration. Under a draft plan, the heads of government of the Organization of Eastern Caribbean States (OECS) would sit on a supranational body that has the authority to make binding economic decisions for all member states. This arrangement could help promote development by harmonizing economic policies while providing leaders with the political cover necessary to lower public expenditures and reduce debt in an attempt to impose fiscal discipline upon their governments. An economic union could also better position the OECS to compete in the wider CARICOM Single Market and Economy (CSME). The willingness of the countries in the Eastern Caribbean to cede sovereignty to a supranational body suggests that they could also countenance political integration in the future. End summary.

Eastern Caribbean Proposes Common Economic Policies

[2](#). (U) OECS members are considering the establishment of a new legal mechanism that would allow their national leaders to establish common economic policies for the small-island states in the Eastern Caribbean. Under the plan, the existing OECS Authority, comprised of the heads of government of all nine OECS members, would be given the power to pass binding legislation in specific economic areas, including fiscal policy. Such a development would result in the closer integration of a region that already relies upon the OECS to coordinate its activities in a variety of areas such as aviation and legal affairs. This would be the first time, however, that the OECS Authority would have the power to make decisions binding on all member states.

[3](#). (U) Note: The OECS Authority consists of the Prime Ministers of the six independent nations that are members of the organization, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, and the Chief Ministers of the three self-governing British overseas territories in the OECS, Anguilla, Montserrat, and the British Virgin Islands. End note.

OECS Authority to Become a Supranational Body

¶4. (U) The OECS member states are presently reviewing a draft treaty that would make the OECS Authority a supranational decision-making body. If adopted, the new treaty would replace the 1981 Treaty of Basseterre that established the OECS. The draft treaty would also remake the current OECS Secretariat, the organization's St. Lucia-based bureaucracy,

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into the Eastern Caribbean Commission. Drawing on the European Union's model, the Commission would draft proposed legislation that would then be considered by the heads of government. It is not clear at this time if the new treaty will require the passage of legislation by consensus or a simple majority vote by the OECS Authority. The OECS Secretariat hopes to have the draft treaty and other

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documents related to the economic union available for public comment later this year.

Parliaments Would Give Up Power

¶5. (SBU) Granting the OECS Authority legislative power would require the parliaments of the six independent nations in the OECS to cede a significant aspect of their authority to determine the laws and policies of their individual nations. The governments of the British territories would take similar action after first obtaining approval from the U.K. to participate in the enhanced OECS Authority. According to OECS Secretariat staff, the independent nations in the OECS are leading this move toward granting the organization's governing body greater power with the British territories reluctantly going along. St. Vincent Prime Minister Ralph Gonsalves and St. Lucia Prime Minister Kenny Anthony are

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credited with being the driving force behind this effort.

Focus on Fiscal Policy

¶6. (U) Adopting a common fiscal policy would be at the heart of the move toward closer economic integration, with the OECS Authority potentially setting ceilings on both public debt and fiscal deficits. This would force the highly indebted member states to rein in their borrowing and spending. Such an IMF economic stabilization plan has required the Government of Dominica to adopt some tough measures in pursuit of this goal, which has aroused considerable domestic political opposition. If the OECS Authority gains the power to create a common fiscal policy, it could, in effect, direct that all member states follow Dominica's lead. (Note: In 2004, debt as a percentage of GDP for the six independent OECS states ranged from a low of 69 percent for St. Lucia to a staggering high of 162 percent for St. Kitts and Nevis. End note.)

Political Cover for Government Leaders

¶7. (SBU) Having the OECS centrally legislate fiscal policy would provide political cover for the region's leaders, according to Allister Mounsey, an OECS economist who is drawing up plans for the economic union. The OECS member states desperately need to reduce their borrowing and public expenditures, which will require a fair amount of belt-tightening. Necessary reforms include reducing the size of government payrolls and spending on public works and other employment-generating projects. A prime minister will have an easier time politically if an OECS-wide decision can be blamed for any hardship caused to his citizens. Mounsey

explained to Poloff that the impetus behind this move to give the OECS Authority the power to set fiscal policy came, in part, from the inability of governments to make these politically difficult decisions themselves.

A Step Closer to Full Economic Union

¶8. (U) The adoption of a common fiscal policy would take the OECS significantly closer to full economic union. The members (with the exception of the British Virgin Islands) already use the Eastern Caribbean dollar and share a common monetary policy set by the Eastern Caribbean Central Bank (ECCB). Although the bank is technically independent of the OECS, the membership of the ECCB's governing body is almost identical to that of the OECS Authority, thereby providing a precedent for the manner of decision-making planned for an enhanced OECS. After tackling fiscal policy, the OECS would likely move to harmonize trade and other policies, eventually making the Eastern Caribbean a full economic union.

CARICOM and the CSME

¶9. (U) The Eastern Caribbean's move toward closer economic integration is occurring parallel to the larger Caribbean region's evolution toward a single market, the CARICOM Single Market and Economy (CSME). The CSME, with its focus on the movement of goods, services, and people, could have a great impact on the countries in the OECS sub-region, but would not affect their sovereignty to the same degree as the proposed economic union. The small nations that make up the OECS have been wary of the single market forcing them to compete with larger economies such as those of Jamaica and Trinidad and Tobago, leading them to delay their entry into the CSME (ref A). Closer economic integration and the imposition of fiscal discipline could offer the OECS members a better position from which to participate in and benefit from the CSME.

Political Union?

¶10. (SBU) Comment: The willingness of the nations in the Eastern Caribbean to cede increasing amounts of their

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sovereignty to a regional economic union suggests that they could take the logical next step and begin moving toward a political union. OECS-wide political integration would appear to be a more logical development than the periodically discussed integration of a select number of OECS member states with non-OECS member Trinidad and Tobago (refs B and C). Should the proposed economic union prove effective, the small countries in the OECS are more likely to join politically with one another than to be subsumed by their larger and more powerful neighbor. The senior politicians of these small-island states understand that their independent positions are becoming increasingly difficult to sustain in an era of globalization. If these leaders are to share economic or even political control over the affairs of their nations, it should be easier to do so first among the OECS microstates, to prepare for the greater challenges of participating in the Caribbean-wide CSME and a potential hemispheric free trade area. End comment.
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